

**Fifteenth Meeting of the
IMF Committee on Balance of Payments Statistics
Canberra, Australia, October 21–25, 2002**

**Classification of Financial Derivatives in Direct Investment: Letter Sent to IMF's Balance
of Payments Correspondents Promulgating the Final Decision of the Committee**

**Prepared by the Statistics Department
International Monetary Fund**



INTERNATIONAL MONETARY FUND
WASHINGTON, D. C. 20431

CABLE ADDRESS
INTERFUND

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NATIONAL BALANCE OF PAYMENTS CORRESPONDENTS OF THE IMF

Dear [_____]

The purpose of this letter is to advise you of the final decision of the IMF Committee on Balance of Payments Statistics (BOPCOM) on the classification of financial derivative transactions involving affiliated enterprises in the balance of payments statistics and in the international investment position (IIP) statement.

In 2000, the IMF published *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual*, which, among other things, changed the structure of the balance of payments and the IIP to include a new category for financial derivatives. The *Supplement* also reflected a provisional BOPCOM decision to include financial derivative transactions involving affiliated enterprises (other than those between affiliated banks and financial intermediaries)¹ in the direct investment category under a new sub-category for financial derivatives. In making the provisional decision, the BOPCOM recognized that the continued classification of financial derivatives within direct investment would depend on country experience in implementing the recommendations.

The IMF has subsequently sought the advice of regional groups of balance of payments compilers on their country experience in implementing the provisional recommendations on the classification of financial derivative transactions in direct investment. The issue was discussed at meetings of the European Central Bank (ECB) Working Group on Balance of Payments and External Reserves, and the Organisation for Economic Cooperation and Development (OECD) Working Party on Financial Statistics, as well as within the BOPCOM itself. The member countries of the ECB and OECD groups did not support the creation of a separate component for financial derivative transactions within the direct investment category. Consequently, in October 2001 the BOPCOM decided to update its provisional decision on this issue, and reached the final decision that financial derivative transactions involving affiliated enterprises should be classified under the financial derivatives category

¹ “Affiliated enterprises” means enterprises that are in a direct investment relationship. Direct investment excludes transactions between affiliated banks and financial intermediaries, except those transactions that involve equity and permanent debt. The amount of financial derivatives transactions either between affiliated enterprises, or between an affiliated enterprise and an affiliated bank or financial intermediary, is therefore considered to be relatively small.

of the balance of payments statistics and the IIP, noting that some such financial derivatives may not be able to be identified and would therefore be included indistinguishably in direct investment, other capital.

The Balance of Payments Statistics/IIP Report Form is being amended to reflect the final decision of the BOPCOM, and a copy of the new report form will be forwarded to you in the coming weeks. We are also attaching a document indicating the relevant changes to the text of Part II of the 2000 *Supplement*² that reflect the final decision on the classification of financial derivatives in the balance of payments and IIP.

Sincerely yours,

Carol S. Carson
Director
Statistics Department

Attachment

² Changes have been made to the text of the following pages of *Financial Derivatives: A Supplement to the Fifth Edition (1993) of the Balance of Payments Manual*: (i) paragraphs 176 and 177 on page 19; (ii) the continuation of paragraph 177 on page 20; (iii) items 1.1 and 1.2 on page 23; (iv) paragraphs 324 and 330 on page 30; (v) paragraph 369 on page 33, (vi) paragraph 375 on page 34; (viii) paragraph 465 on page 41; (ix) item 1 on page 43; and (x) item 1 on page 45. Paragraph 370a on page 33 has also been deleted.